

Message Text

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ACTION EB-11

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INFO AMCONSUL LAHORE

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SUBJECT: STATUS OF PAK COTTON INDUSTRY

REF: (A) KARACHI 1627 (B) ISLAMABAD 7619 (C) KARACHI 1730

SUMMARY: DESPITE ABOLITION OF YARN EXPORT DUTY AND CREDIT ASSISTANCE BY GOP, PAK COTTON TEXTILE INDUSTRY CONTINUES EXPERIENCE PROBLEMS DUE PRIMARILY TO CONTINUING SLUMP IN INTERNATIONAL MARKET FOR COTTON YARN. END SUMMARY.

1. AS REPORTED REF. C, CONTROVERSIAL EXPORT DUTY ON COTTON YARN WAS ABOLISHED BY GOP ON AUGUST 18, 1974, IN EFFORT TO BOOST BADLY SLUMPING EXPORTS OF COTTON YARN AND THEREBY ALLEViate PROBLEMS FACED BY MANY YARN SPINNING MILLS IN PAKISTAN. IN ADDITION GOP CONTROLLED BANKS HAVE REPORTEDLY EXTENDED LOAN FACILITIES EQUIVALENT TO 100 PERCENT OF YARN VALUE TO THOSE TEXTILE MILLS IN DIRE STRAITS. ABOLITION OF EXPORT DUTY HAS APPARENTLY HAD SOME EFFECT. OFFICIAL OF GOP EXPORT PROMOTION BUREAU REPORTS THAT REGISTRATION OF YARN EXPORT SALES FOR FIRST WEEK OF SEPTEMBER WAS 5 MILLION POUNDS AS COMPARED WITH ONLY 7.7 MILLION POUNDS FOR ENTIRE MONTH OF AUGUST. AT LEAST ONE TEXTILE MILL OWNER KNOWN TO CONGEN HAS

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ALSO REPORTED SOME IMPROVEMENT ON YARN SALES. IT APPEARS

THEREFORE THAT ELIMINATION OF DUTY HAS INDEED HAD SOME BENEFICIAL EFFECT ON SLUMPING YARN SALES CONTRARY TO PREDICTION OF MIN FIN MUBASHIR HASAN WHO STRONGLY OPPOSED ABOLITION.

2. DESPITE SLIGHT UP-TURN DESCRIBED ABOVE, MEDIUM TERM PICTURE CONTINUES TO BE GLOOMY ACCORDING TO INDUSTRY SOURCES. EXECUTIVE OF ONE OF MOST EFFICIENT MILLS IN KARACHI REPORTS HE IS CONTINUING TO OPERATE BUT AT BARE PROFIT. OTHER MILLS, ACCORDING TO THIS EXECUTIVE, ARE PRODUCING AT A LOSS, BUT CREDIT ASSISTANCE FROM GOVERNMENT ENABLING THEM TO CONTINUE IN OPERATION.

3. EXECUTIVE OF ALL PAKISTAN TEXTILE MILLS ASSOCIATION REPORTS THAT SOME LESS EFFICIENT MILLS ARE CONTINUING TO OPERATE ONLY BY MORTGAGING PERSONAL BELONGINGS ON THE PART OF THE OWNERS. OTHER MILLS, ACCORDING TO THIS OFFICIAL, ARE SELLING COTTON YARN TO DOMESTIC COTTAGE INDUSTRY LOOM OPERATORS AT A NOT INSIGNIFICANT LOSS.

4. COMMENT: IF YARN EXPORTS DO NOT IMPROVE SIGNIFICANTLY IN NEXT FEW MONTHS (AND CHANCE APPEARS SLIGHT IN VIEW CONTINUED DEPRESSION IN FAR EAST TEXTILE INDUSTRY), CRISIS COULD BROADEN AND BECOME EVEN MORE SEVERE AS MILL OWNERS REFUSE TO BUY NEW COTTON CROP AT PRICES WHICH WOULD REQUIRE THEM TO OPERATE AT LOSS. THIS SLACKENING OF DEMAND IN TURN, SEEN BY CONGEN CONTACTS ON COTTON EXPORT TRADE AS INEVITABLY DRIVING DOWN PRICE OF RAW COTTON PAID TO FARMERS THROUGH MECHANISM OF COTTON EXCHANGE WITH SERIOUS POLITICAL PROBLEMS RESULTING.

NEW BILATERAL TEXTILE AGREEMENT WITH U.S. JUDGED TO BE GENEROUS AND LIBERAL BY LOCAL INDUSTRY SOURCES, BUT THIS WILL NOT HELP HARD HIT YARN SPINNERS SINCE U.S. NOT SIGNIFICANT IMPORTER OF PAK YARN.

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